



German  
Economic  
Team

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**POLICY STUDY**  
**GEORGIA**

# Georgia's economic exposure to Russia: recent developments

by Sebastian Staske and Dr Ricardo Giucci

# Executive summary

- » **Starting point:** some observers argue GEO's economic exposure to RUS increased strongly recently
- » Goal of this Policy Study: check whether this claim is correct by looking at relevant indicators
- » Definition exposure: structural dependency where short-term substitution is difficult. Thus, an increasing indicator does not necessarily mean higher exposure
- » **Goods exports**
  - Exports to other countries (36%) increased much stronger than to RUS (7%)
  - Overall, decline in exposure to RUS. But: exposure increased in agro-food sector
- » **Goods imports**
  - Very strong increase in imports from RUS due to oil products
  - Share of RUS in oil imports increased from 18% (2021) to 49% (2022). But: this was driven by low prices for RUS Urals oil; (re-)diversification possible, thus no increase in exposure
- » **Tourism**
  - 2022: no conclusive statement on change in exposure possible due to relocation of RUS people
  - 2023: resumption of direct flights will likely increase exposure
- » **Other factors**
  - **Remittances:** no increase in exposure; hike in money transfers from RUS due to special factors
  - **FDI:** RUS role hard to determine, but no evidence for increased exposure (case study: Borjomi)
  - **Banking sector:** limited exposure before the war; no exposure as of today, no active RUS bank
  - **Public debt:** bilateral debt to RUS very low (0.2% of total public debt), no exposure to RUS
  - **Market sentiment:** rating actions ambiguous, Eurobond risk premium: no increased exposure
- **Overall, no increase in exposure to RUS. Sectoral view reveals mixed results**

# Outline

1. Motivation
2. Goods exports
  1. Overview of goods exports to Russia
  2. Goods exports to Russia in 2022
  3. Exposure to Russia as an export market
3. Goods imports
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4. Tourism
  1. Overview of visitors and revenues in 2022
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  2. FDI
  3. Banking sector
  4. Public debt
6. Market perception: ratings and Eurobond

## Annex

- Exposure to Russia for food imports
- Exports of ICT services

# 1. Motivation

# 1. Motivation

- » Russia is among Georgia's most important trading partners and is a key source country for money transfers and FDI
- » The war in Ukraine has caused significant shifts in global economic relations with Russia. As a direct neighbour of Russia, Georgia is particularly exposed to such shifts
- » Some observers argue that Georgia's economic exposure to Russia has increased strongly in recent years, especially since the start of the war in Ukraine

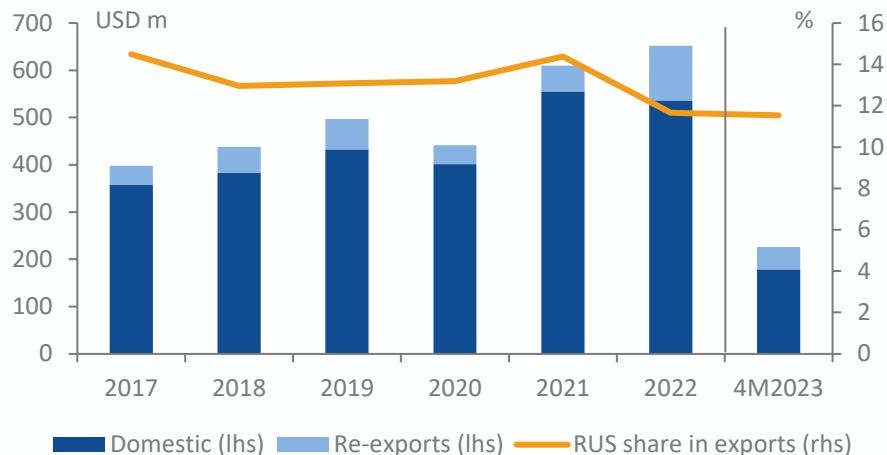
**Goal of this Policy Study:** check whether this claim is correct

- » **Indicators:** we look at the development of goods exports and imports, tourism, money transfers, FDI, the banking sector, public debt and market perception
- » **Key point:** we do not just refer to aggregated data, but also analyse these data more in detail, taking into account special factors
- » **Definition:** we define exposure as a structural dependence on Russia which cannot be alleviated in the short-term
- » In particular: a rising share of Russia in any of these indicators does not mean that Georgia's exposure to Russia has increased if effects are temporary or could be reversed relatively easily

## 2. Goods exports

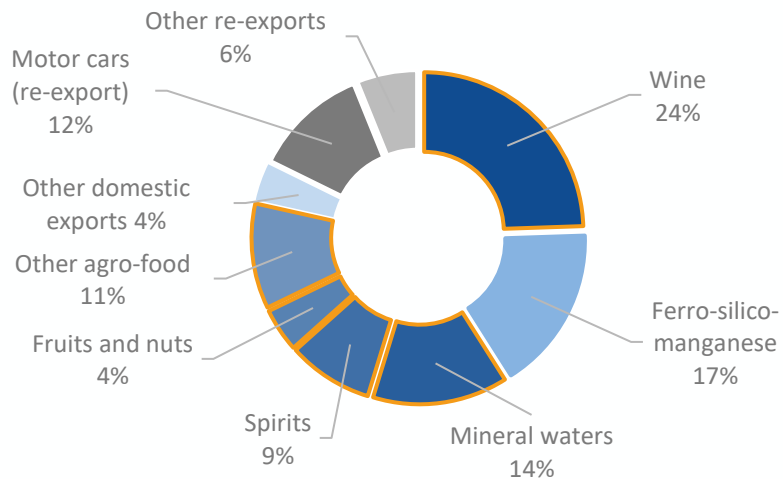
# 2.1. Overview of goods exports to Russia

### Exports to Russia 2017-2023



Source: Geostat

### Structure of exports to Russia 2022



Sources: Geostat; Note: slices in grey denote re-exports, agro-foods with yellow contour

## Overview 2017-2023

- » In general: increase in exports
- » But: increase mostly in line with trend in overall exports, share in total exports relatively constant at around 13-14%
- » 2022: share in total declined to 12% due to stronger export growth to other countries
- » 4M2023: share in total stable

## Structure of exports

### Domestic exports

- » Strong dominance of agro-foods:
  - » High share of goods with brand recognition (wine, waters and spirits, combined: 47% of total exports to RUS)
  - » Additionally: fruits, vegetables
- » Also notable: ferro-silico-manganese

### Re-exports

- » 2022: dominated by motor cars (due to strong increase from low base)
- Strong, but not dominant, role for RUS in total exports

## 2.2. Goods exports to Russia in 2022

### Overview of domestic exports and re-exports to Russia

	USD m		% yoy		
	2021	2022	Total	Price	Vol.
<b>Domestic exports to RUS</b>	<b>555</b>	<b>536</b>	<b>-3</b>		
Wine	130	159	22	-18	49
Ferro-silico-manganese	172	108	-37	15	-45
Spirits	41	56	37	20	14
Mineral water, unsweetened	60	50	-17	-2	-14
Mineral water, sweetened	26	39	51	0	50
Peaches, incl. nectarines	24	29	20	2	18
Cranberries, blueberries	5	8	51	2	47
Apples	8	7	-10	24	-27
Mandarins, incl. tangerines	16	7	-59	7	-62
Manganese oxides	2	5	97	20	63
Other domestic exports*	70	68	-3		
<b>Re-exports to RUS</b>	<b>55</b>	<b>116</b>	<b>110</b>		
Motor cars	17	76	338	102	117
Other re-exports*	38	40	5		
<b>Total exports to RUS</b>	<b>610</b>	<b>652</b>	<b>7</b>		
<b>Comparison: other countries</b>	<b>3,633</b>	<b>4,941</b>	<b>36</b>		

Sources: Geostat, own calculations; Note: copper ores (an important export good for worldwide trade, but not with regards to Russia) included in re-exports

### Total exports

- » Small increase (7% yoy)
- » But: increase far below other regions (36%) and mainly driven by re-exports

### Domestic exports

- » Overall: stagnant, small decline (-3%)
- » Decline mostly explained by decrease in ferro-silico-manganese exports
- » Notable: strong increases for wine and spirits, in particular regarding volumes
- » Possible explanation: (temporarily) reduced EU sales of these goods to RUS got substituted by GEO exports

### Re-exports

- » Very strong increase in re-exports of motor cars, but from low base
- » Likely mainly used cars, possible explanation: reduced exports of Western suppliers increases demand for used cars in RUS
- Increase in exports to RUS in 2022 was below other countries
- Main driver: re-exports of motor cars



## 2.3. Exposure to Russia as an export market

Share of exports to Russia for selected goods

	2022 (USD m)		RUS share (%)	
	RUS	World	2021	2022
<b>Domestic exports to RUS</b>	<b>536</b>	<b>2,680</b>	<b>24</b>	<b>20</b>
Wine	159	248	56	64
Ferro-silico-manganese	108	453	36	24
Spirits	56	100	40	56
Mineral water, unsweetened	50	110	43	45
Mineral water, sweetened	39	81	45	48
Peaches, incl. nectarines	29	30	83	95
Cranberries, blueberries	8	8	91	93
Apples	7	7	98	98
Mandarins, incl. tangerines	7	8	76	79
Manganese oxides	5	15	20	31
Other domestic exports*	68	1,618	6	4
<b>Re-exports to RUS</b>	<b>116</b>	<b>2,913</b>	<b>4</b>	<b>8</b>
Motor cars	76	904	4	8
Other re-exports*	40	2,009	3	2
<b>Total exports to RUS</b>	<b>652</b>	<b>5,593</b>	<b>14</b>	<b>12</b>

Sources: Geostat, own calculations; Note: copper ores (an important export good for worldwide trade, but not with regards to Russia) included in re-exports

### Aggregate view

- » 2022: decline of RUS share in total exports
- » Reason: increase in exports to rest of world much stronger (see previous slide)

### Sectoral view

#### Wine, spirits, water

- » High and increasing exposure: 50-65% of exports go to RUS
- » But: well-established business relations and regional brand recognition, short-term diversification difficult

#### Other agro-food products

- » Limited in value, but very high exposure (over 90% for some goods) continues

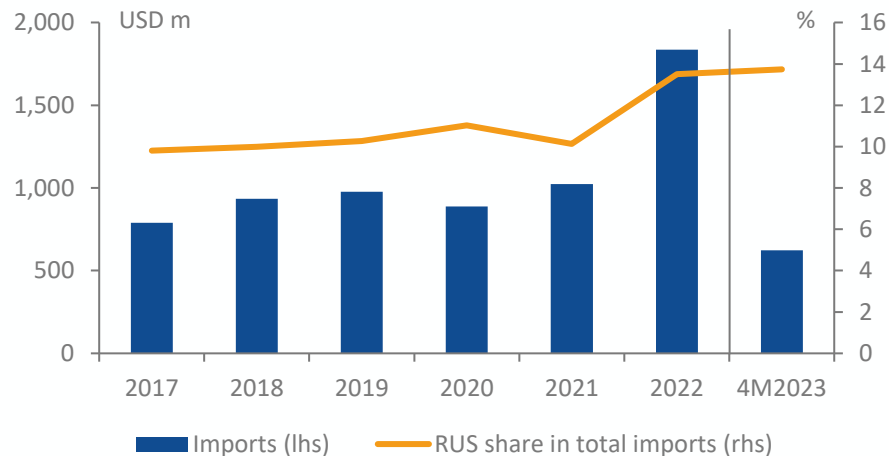
#### Other goods

- » Ferro-silico manganese: international commodity, no significant exposure to RUS
- » Re-exports do not constitute exposure
- Overall, decline in exposure to Russia
- But: exposure persists and increases in agro-food sector

### 3. Goods imports

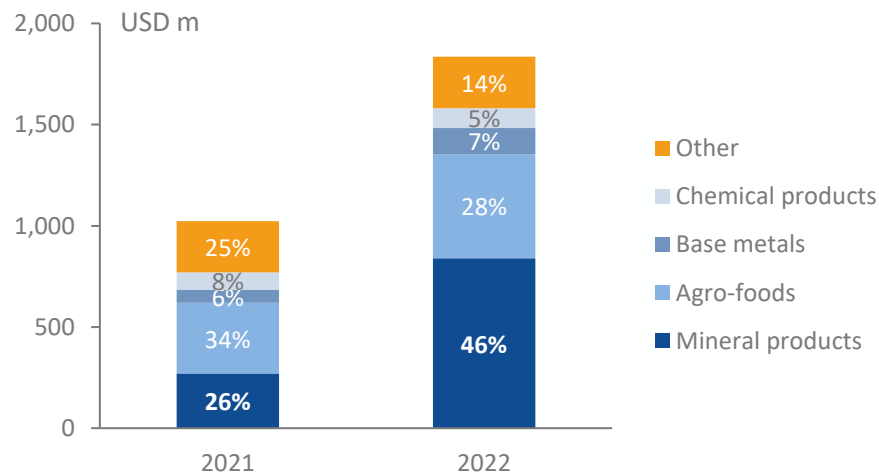
# 3.1. Overview of goods imports from Russia

## Imports from Russia 2017-2023



Source: Geostat

## Development of import structure 2021/2022



Source: Geostat

## Overview 2017-2023

- » Until 2021: slow yearly increase, share in total imports roughly constant at ca. 10%
- » 2022: very strong increase in imports (79% yoy, other regions: 30%), share in total increases to 14%
- » 4M2023: share in total roughly stable

## Import structure and changes in 2022

- » In general: two main categories (mineral products and agro-foods)
- » 2022: change in structure, now dominance of mineral products
- » Reason: strong increase in imports of oil products
- Very strong increase in imports in 2022
- Reason: strong increase in imports of oil products

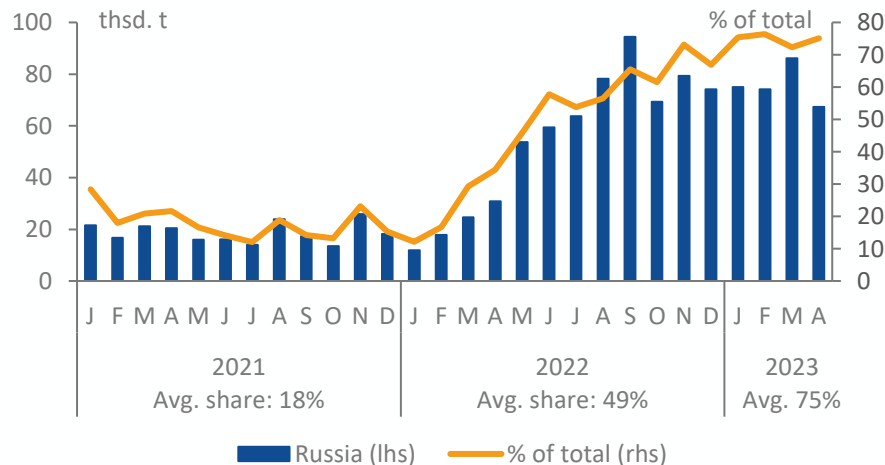
## 3.2. Exposure to Russia as an import market

Overview of selected imports from Russia

	USD m		% yoy			RUS: % total	
	2021	2022	Total	Price	Vol.	2021	2022
Oil products	135	623	361	58	193	18	49
Natural gas	71	93	32	0	31	17	18
Coke	23	59	153	40	80	43	83
Coal	6	16	154	147	3	94	94
Wheat/flour	99	128	30	37	-6	95	98
Other imports	642	808	26				
<b>Total imports</b>	<b>1,023</b>	<b>1,835</b>	<b>79</b>				

Sources: Geostat, own calculations; Note: RUS share (% of total) based on import volumes

Georgian imports of oil products from Russia 2021-2023



Source: Geostat

### Development in 2022

- » Increase in import value predominantly driven by very strong rise in imports of oil products (+ USD 488 m)
- » Noteworthy: oil import volumes rise strongly
- » Reason: Russian Urals oil trades at discount relative to other brands

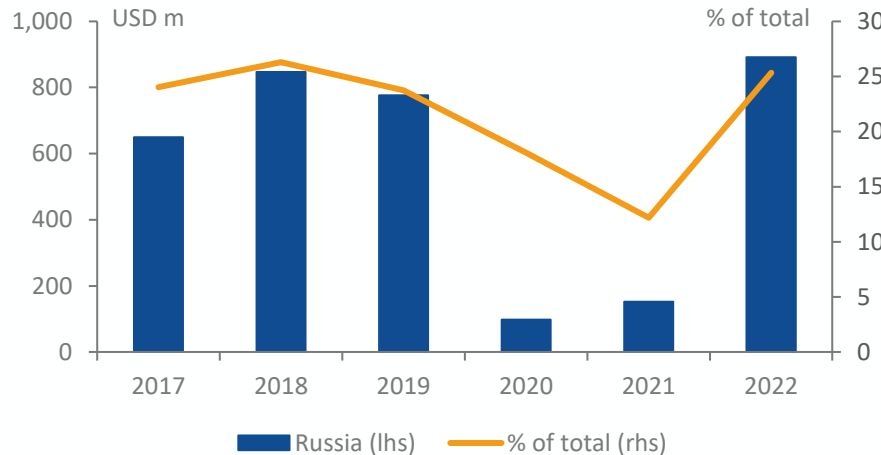
### Exposure to RUS

- » Oil imports: until 2021 well diversified, RUS share around 18%
- » 2022: quick reaction to change in prices
- » But: no rise in exposure as (re-)diversification likely possible if price difference fades
- » Natural gas: long-term contract with AZE, exposure to RUS did not change in 2022
- » Coal: high and increasing RUS import share, but: overall importance of coal decreasing
- » Wheat: traditionally high share for RUS, thus little change in 2022 (see annex for details)
- RUS share in oil products rising strongly, but no change in exposure

## 4. Tourism

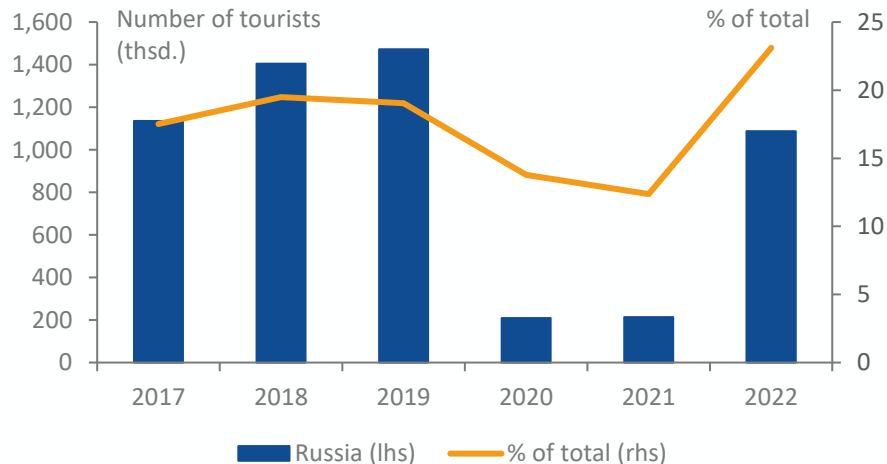
# 4.1. Overview of visitors and revenues in 2022

## Tourism revenues from Russia 2017-2022



Source: NBG

## Number of tourists from Russia 2017-2022



Source: GNTA

## Overview

- » Important sector: 12% of GDP (pre-COVID)
- » General trend: increasing number of tourists and revenues from RUS (20-25% of total)
- » 2022: high importance of migration
  - Number of tourists still below 2019 level
  - Revenues already exceeding 2019 level
  - Reason: statistical problems in differentiating vacation tourists and migrants

## Exposure to RUS

- » 2022: statistics influenced by relocation of approx. 90,000 people from RUS
- » IMF methodology: tourists staying longer than one year count as residents
- » Starting Mar-23: NBG estimates share of RUS migrants staying longer than one year
- » All else being equal: “tourism revenues” would decrease as statistical effect fades out
- 2022: no conclusive statement on change in exposure possible due to relocation effect

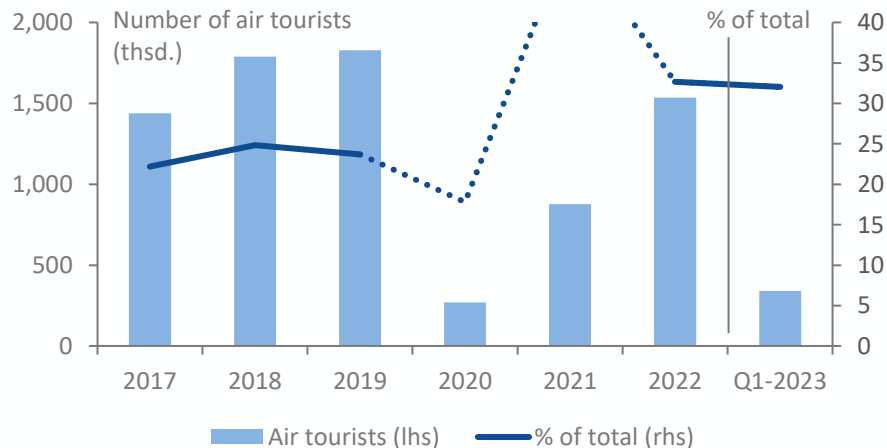
## 4.2. Direct flights with Russia

Direct flights between Georgia and Russia

Carrier	City in GEO	City in RUS	Status
Georgian Airways	Tbilisi	Moscow	active
Azimuth Airlines	Tbilisi	Moscow	active
Red Wings	Tbilisi	Sochi	planned (June)
Red Wings	Kutaisi	Moscow	planned (June)

Source: respective airlines, as of 8 June 2023

Total air tourists 2017-2023



Source: GNTA; Note: value for % of total in 2021 (51%) omitted to allow for better visibility of other years

### Exposure to RUS

- » Jul-19: RUS bans direct flights from/to GEO
- » Likely: growth in air travel in 2019 subdued as result of the ban
- » Note: growth in number of RUS tourists slowed down in 2019 (previous slide)
- » May-23: ban was lifted, new direct flights
- » Four routes currently active or planned by one GEO airline and two RUS airlines
- » RUS airlines not directly under sanctions, but risks related to maintenance

### Importance of air travel

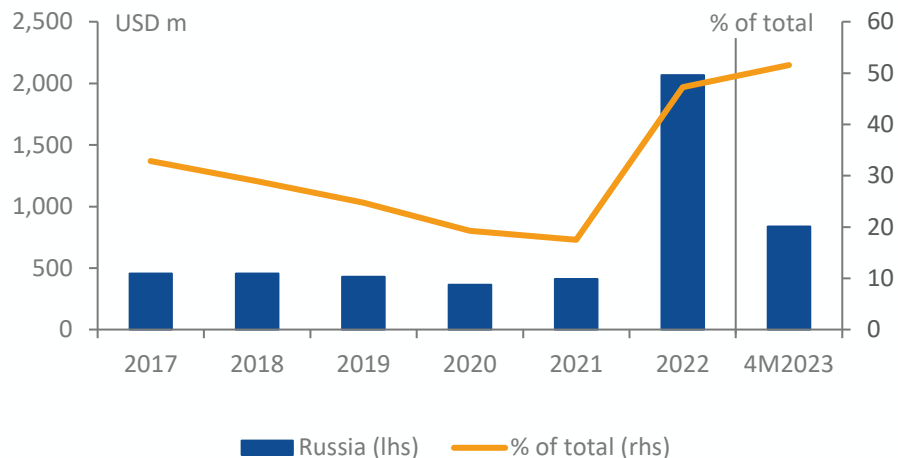
- » No differentiated data for air travel by country publicly available
- » But: overall trend indicates increase in importance of air travel
- » Also: on average, air tourists spend more than other tourists
- Exposure in tourism likely to increase in 2023 due to direct flights

## 5. Other factors



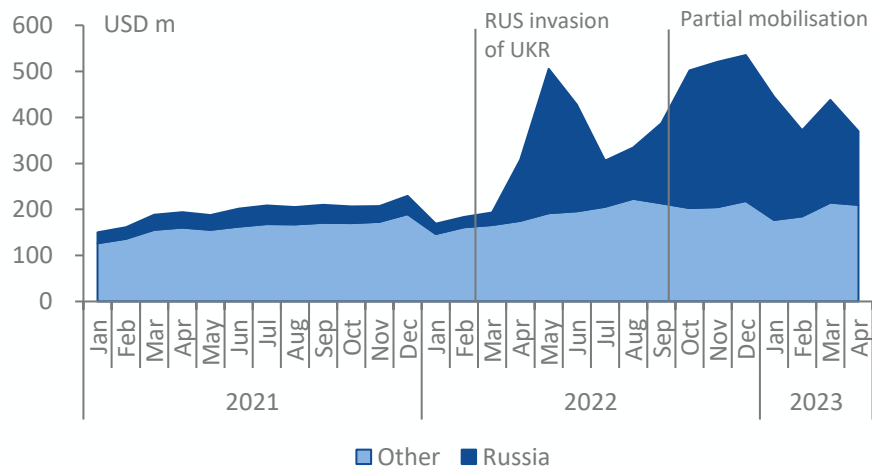
# 5.1. Remittances and money transfers

## Money transfers 2017-2023



Source: NBG; Note: based on USD

## Monthly money transfers 2021-2023



Source: NBG; Note: based on USD

## Overview

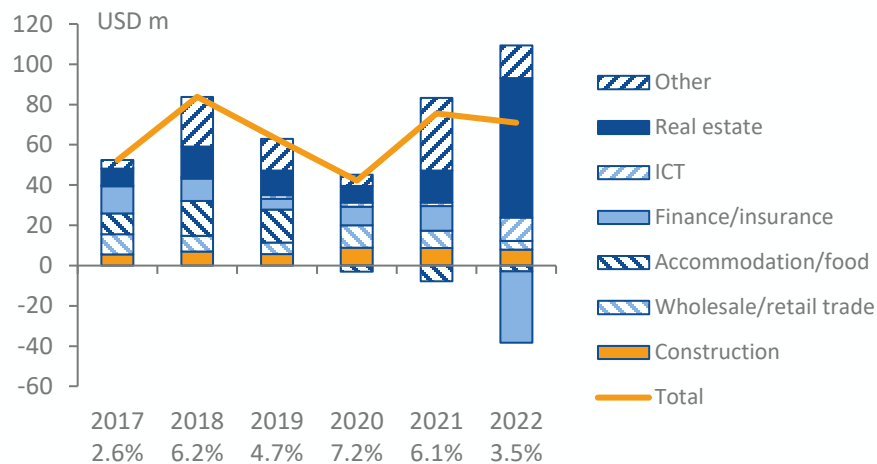
- » Usually: money transfers good indicator for remittances (i.e. money sent home to support relatives in GEO)
- » Long-term trend: Russian share declining
  - 2017: 33%
  - 2021: 18%
- » Reason: Russia becoming less important as destination for workers

## Exposure to RUS

- » 2022: very strong increase in money transfers (USD 2.1 bn, 47% of total)
- » However, increase not due to remittances, but to special factors:
  - Two waves of relocation of Russians to Georgia, see chart with monthly data
  - Capital flight
  - Arbitrage opportunities
- Thus: no increase in exposure for remittances

## 5.2. FDI

### Flows of FDI from Russia 2017-2022



Source: Geostat; Note: figures below years indicate % of total FDI flows

### Exports of mineral waters 2021-2022



Source: Geostat

### Overview

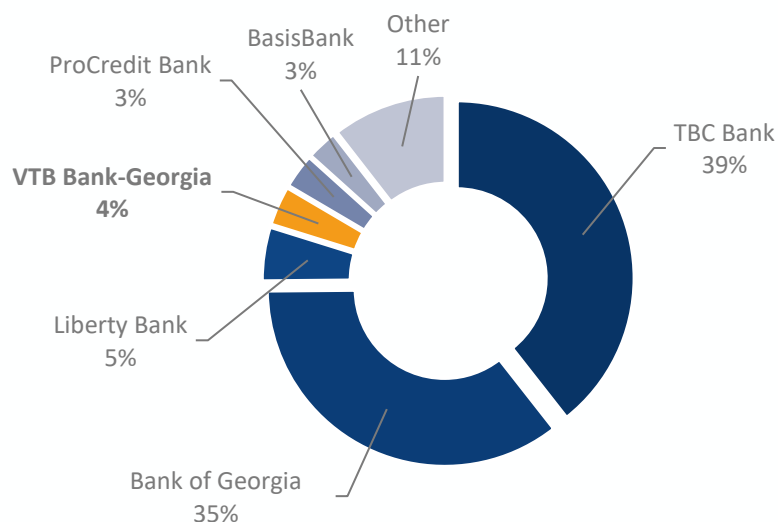
- » Small share of RUS, 2022: decline to 3.5%
- » 2022: strong increase in real estate, but: decline in financial services
- » But: statistics based on country of registration. Firms often register in countries with favorable tax/arbitration laws
- » Result: RUS share in FDI underestimated

### Exposure to RUS / Case study: Borjomi

- » Before war: Borjomi controlled by Russian entity (despite other country registrations)
- » Apr-22: suspension of production, strong decline in exports of mineral waters
- » Reason: problems related to sanctions due to majority ownership by Russian Alfa Group
- » Solution in Jun-22: GEO gov't takes over part of share of RUS investor (7.73%) for free, RUS investor no longer in control (49.99%)
- Role of Russia in FDI difficult to establish, but no indications for increase in overall exposure
- Borjomi as case study for reduced exposure

## 5.3. Banking sector

### Banking sector assets before the war in Ukraine (2021 Q3)



Source: KPMG

### Overview

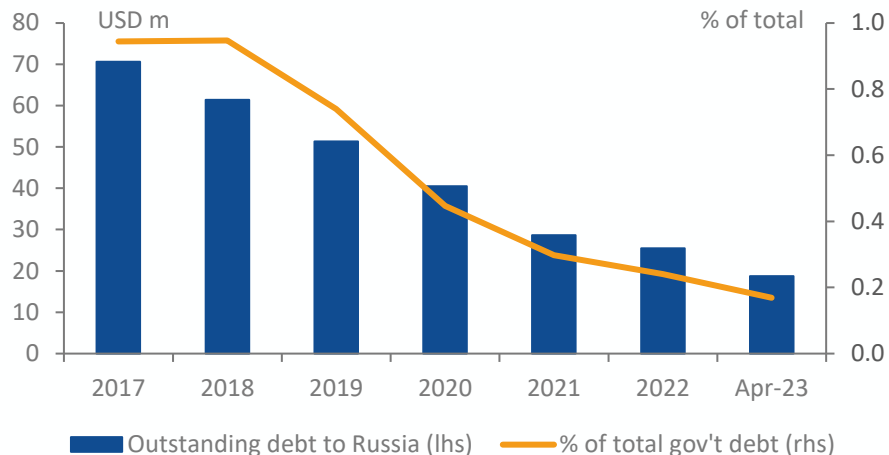
- » In total: 14 banks operating in GEO
- » Dominance of two large banks: TBC Bank and Bank of Georgia (combined market share: 74%)

### Exposure to RUS

- » Even before the war in Ukraine very limited role of Russian banks
  - Only one bank (VTB Bank), 59% of shares owned by Russian state
  - Small market share: 4%
- » Immediately after start of war: NBG instructed financial sector to comply with Western sanctions
- » Result: transfer of VTB portfolio
  - » BasisBank: retail loans and deposits
  - » Liberty Bank: SME loans and deposits
- Very limited role even before the war
- Swift reaction following the war
- Decrease in exposure, now: no exposure

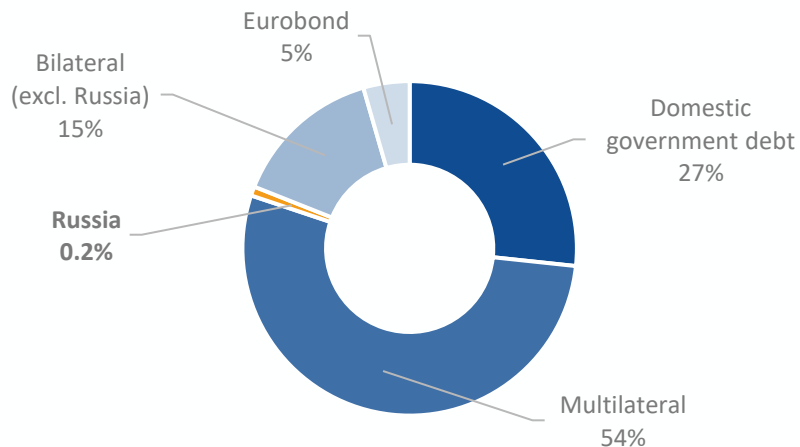
## 5.4. Public debt

### Outstanding bilateral credit with Russia 2017-2023



Source: Ministry of Finance; end of period

### Composition of government debt



Source: Ministry of Finance; as of 30 April 2023

### Outstanding debt to RUS

- » Debt to Russia part of “legacy debt” (loans from former USSR republics)
- » Remaining debt very small: USD 19 m
- » Share in total gov't debt negligible (0.2%)
- » Full repayment by 2025 planned

### Exposure to RUS

- Practically no exposure to RUS before the war
- No noteworthy change in exposure

## 6. Market perception: ratings and Eurobond

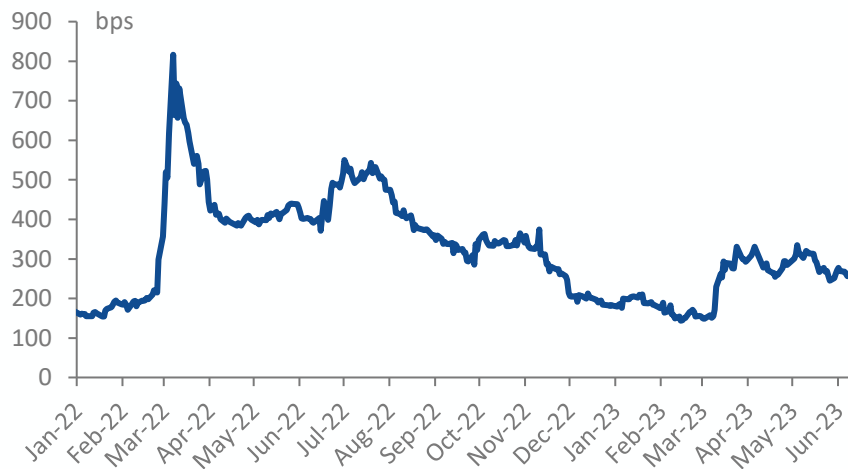
# 6. Market perception: ratings and Eurobond

Rating actions in 2022

Agency	2021	2022	Change
Fitch	BB Stable	BB Stable	unchanged
Standard & Poor's	BB Negative	BB Stable	Outlook up
Moody's	Ba2 Stable	Ba2 Negative	Outlook down

Source: respective rating agencies

Eurobond risk premium to US Treasury Note



Source: Börse Frankfurt, own calculations

## Overview

- » Eurobond as indicator for market sentiment
  - Value: USD 500 m, maturity: Apr-26
  - At issue (Apr-21): yield approx. 200 bps higher than US Treasury Note with same maturity (risk premium)
  - Development of risk premium indicates market perception of GEO as a lender

## Exposure to RUS

- » 2022: rating actions ambiguous
  - Moody's: outlook downgraded as war in UKR highlights risks in links to RUS (also in economic context)
  - S&P: outlook upgraded at start of year due to strong growth in 2021; exposure to RUS balanced by other factors
- » Development of Eurobond risk premium
  - Initially: spike after start of war
  - Afterwards: normalisation
- Ambiguous rating actions in 2022
- But: reaction of Eurobond spread does not indicate major change in market sentiment

# About the German Economic Team

Financed by the Federal Ministry for Economic Affairs and Climate Action, the German Economic Team (GET) advises the governments of Ukraine, Belarus\*, Moldova, Kosovo, Armenia, Georgia and Uzbekistan on economic policy matters. Berlin Economics has been commissioned with the implementation of the consultancy.

*\*Advisory activities in Belarus are currently suspended.*

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# Annex: Exposure to Russia for food imports

Share of imports from Russia for selected food products

	2022 (USD m)		RUS share (%)	
	RUS	World	2021	2022
Wheat flour	67	68	96	98
Wheat	61	63	94	97
Sunflower-seed oil	40	45	87	88
Live swine	20	21	69	98
Worked maize grains	16	16	100	100
Maize	8	8	97	96

Sources: Geostat, own calculations

Self-sufficiency ratios and import share from Russia

	Self-sufficiency ratio*	Import share from RUS
Wheat (and products)	22	94
Maize (and products)	74	96
Pork	52	35

Source: Geostat, own calculations; \*values for self-sufficiency ratio from 2021; self-sufficiency ratio = domestic production ÷ (domestic production + exports – imports); deviations to values in table above can be explained by inclusion of processed foods

## Overview

- » In general: high importance for GEO of agro-food imports from RUS
- » For some goods, nearly all imports come from RUS
- » In particular: wheat (and flour) and sunflower-seed oils
- » 2022: limited change in share of RUS

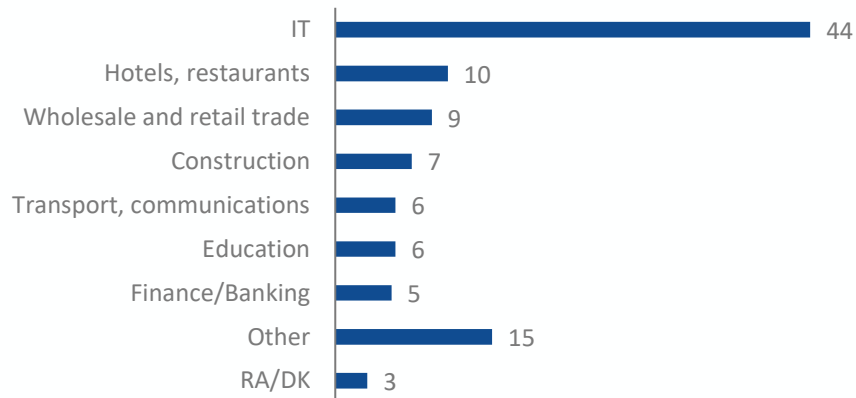
## Self-sufficiency and imports

- » **Wheat:** limited domestic production
  - » Result: high reliance on imports, almost all of which come from RUS
  - » **Maize:** domestic production relatively high, but imports almost fully from RUS
  - » **Pork:** imports more diversified, but RUS still with sizeable share
- High importance of agro-foods imports from RUS, esp. wheat
- But: no change in exposure in 2022



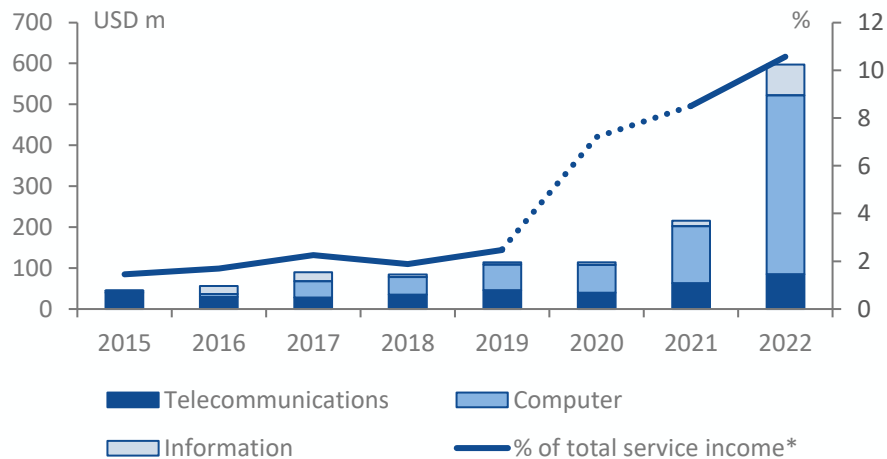
# Annex: Exports of ICT services

## In which sector is your primary job? (% of employed respondents)



Source: German Economic Team, CRRC-Georgia; N=267; RA/DK = refuse to answer / don't know

## Exports of ICT services



Source: NBG; \*Note: increase in % of total in 2020/2021 mainly due to decline in tourism

## Overview

- » ICT sector in GEO relatively small
- » Until 2019: exports small (USD 114 m), minor contribution to total services exports (2-3%)
- » 2022: relocation of people from RUS
  - GET survey: many migrants have background in IT
  - Result: very strong increase in exports (USD 597 m), share in total rises to 10.6% (despite increase in tourism)

## Exposure to RUS

- » High increase in ICT services exports likely explained by relocation
- » But: increase does not constitute exposure to RUS per se
- » Should RUS migrants return at some point: decrease in exports likely (current increase then “one-off” event)
- No significant exposure in exports of ICT services